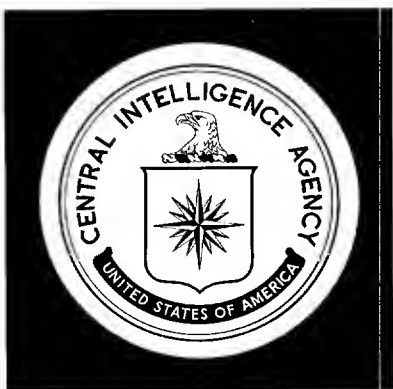


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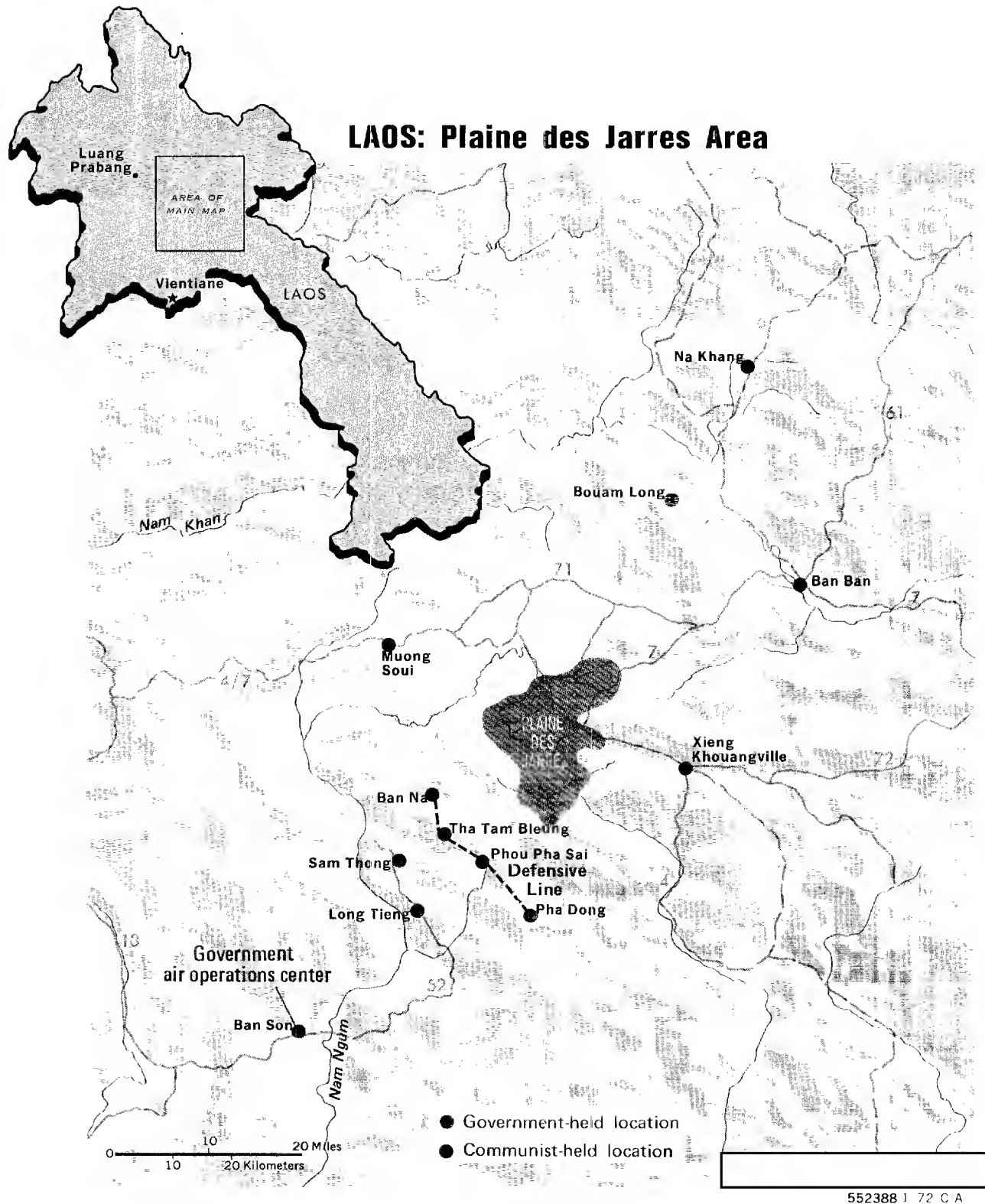
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LAOS: Intensified enemy ground attacks in the Long Tieng area appear imminent.

The government is continuing to redeploy its forces around Long Tieng. Two more battalions from northwest Laos arrived on 3 January and have moved into defensive positions. Some increase in enemy activity north of Luang Prabang and the continuing threat of new attacks in south Laos will make it difficult for the government to deploy additional units to the Long Tieng area.

Additional facilities have been moved from the Long Tieng Valley, including some tactical navigation aids. US spotter planes are now operating from the newly refurbished airstrip at Ban Son. Lao Air Force T-28s are operating out of Vientiane, a move that significantly reduces their time over targets in the Long Tieng area.

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SOUTH VIETNAM: The Communists may be preparing for a fairly ambitious military and political campaign in the southern provinces of the country, considering their current limited capabilities there.

A new directive from the Communists' COSVN headquarters states that the campaign is scheduled to peak in February, [REDACTED]

[REDACTED] In addition to countering the government's pacification program, the campaign is said to aim at undermining President Nixon's trip to China. [REDACTED]

Forces under COSVN, which include most of those in Cambodia and the southern half of South Vietnam, reportedly are to strike hardest in provinces near Saigon and in upper Military Region 4. Significantly, however, the directive says that targets will be chosen selectively, suggesting that the enemy is well aware of his generally weak military position in southern Vietnam. The directive notes that Communist forces will subsequently have to return to more routine operations, implicitly acknowledging that the attacks are not expected to change the security situation decisively.

The COSVN directive does not discuss attacks planned for the central highlands or the area of the Demilitarized Zone, two regions in the northern half of the country where the Communists have or are presently building their greatest offensive capacity through infiltration and supply efforts. This omission probably reflects the fact that COSVN's tactical jurisdiction does not extend to these areas and should not be construed as indicating that the Communists will not attack there. Available evidence still indicates that the strongest enemy thrusts in coming months are likely to be made in the northern half of the country.

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If they are willing to take the casualties, Communist forces nevertheless are capable of hitting hard, largely for psychological impact, against a limited number of carefully selected targets in the southern COSVN region. Other reports have indicated that Communist forces have been working steadily to improve their position in the same target provinces near Saigon mentioned in the report. The government's defensive position in these provinces has been weakened through allied withdrawals, but Saigon is now taking steps to bolster its military forces there.

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MALTA-NATO: Britain is being pressed in NATO to reopen negotiations with Malta with an increased financial offer.

At a special session of the North Atlantic Council (NAC) on Tuesday, the Italians urged that a hint be conveyed to Mintoff that the UK and NATO could raise the current aid offer of about \$26 million. Rome would be willing to put up additional cash, as would Bonn, if the UK and the US also do so.

NATO Secretary General Luns supported the Italian position, expressing concern that Malta's loss to the West would lead to more press allegations about NATO's deteriorating military position. In addition, the representative of NATO's military committee reported that the committee considered the potential cost of relocation or replacement of the facilities on Malta to be "significant" and suggested that the allies weigh this factor in their decisions. The British representative maintained strongly that the best course now was to remain firm, but Luns scheduled another NAC session for today and asked that the representatives seek instructions from their governments.

Meanwhile, the British continue to prepare for withdrawal. Maltese civilians employed by the UK have been given termination notices, and British officials announced that the evacuation of all military dependents, expected to begin Saturday, would be completed by 15 January. Britain hopes that the adverse economic effects of its withdrawal will create enough disenchantment among Mintoff's supporters to cause him to temper his demands, but at least some British officials doubt that this strategy will work. The deputy high commissioner in Valletta told US officials on 3 January that he is not certain that moderate members of the ruling Labor Party have an effective influence on Mintoff.

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There are rumors of friction among Laborites [redacted] but Mintoff appears to have a solid grip on the Labor Party and the opposition's attacks have been unavailing.

A dispute has developed over control of the facilities at Luqa, Malta's principal airfield. Earlier this week, Mintoff announced that a group of technicians, who had arrived from Tripoli, were going to help Maltese officials run the facilities at Luqa now operated by Royal Air Force (RAF) personnel. The British believe the technicians are Egyptians. Subsequently, Valletta requested that the UK turn over control of Luqa "as soon as possible." The British replied that they must remain in charge of the airport until the withdrawal is completed. A British official in Valletta told US diplomats that London is prepared to grant nominal control of Luqa to the Maltese as long as the RAF continues in de facto control. [redacted]

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IRAN-IRAQ: Large-scale expulsions of Iranian residents from Iraq are increasing tension between Tehran and Baghdad.

Baghdad has reportedly expelled 60,000 Iranian residents of Iraq, presumably in reaction to Tehran's occupation of three Persian Gulf islands in late November. Some 30,000 were sent across the border on 29 and 30 December alone, according to press reports and Iranian official sources. There were estimated to be some 200,000 Persian-speaking residents before the expulsions began. During a period of strained relations in 1969, about 12,000 Iranians reportedly were expelled.

Iranian Prime Minister Hoveyda canceled a scheduled visit to the US next week ostensibly because of the potential seriousness of the situation. Except for this, Iranian reaction has been relatively restrained. Religious leaders have called for a half-day strike today to protest alleged Iraqi persecution of Shiite religious leaders and their followers. The government has brought the situation before the UN, but has refrained from requesting a meeting of the Security Council for the time being.

[redacted] about 800 expellees have been identified as possible or likely Iraqi agents. This could easily cause a step-up in cross-border clandestine operations against the Baathist regime in Baghdad. Such operations would probably include increased aid to the Kurds, as well as funding and directing dissident and disgruntled Iraqis now in exile in Iran. [redacted]

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SINGAPORE-USSR: An agreement has been reached for Singapore to refit several Soviet merchant ships.

The government-owned Keppel Shipyard will refit three ships of the Soviet Antarctic whaling fleet at a total cost of over \$1 million. Although Soviet commercial ships in the past have undergone minor repairs in Singapore's shipyards, this is the first large-scale maintenance contract. The first ship entered the yard on 24 December, and the other vessels will arrive for refitting over the next two months. The high amount of the contract probably is due to the large quantity of sophisticated equipment on board the vessels.



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FINLAND: It may take several months to form a new government following the national election on 2-3 January.

The balance of political power was not significantly changed by the election. The four parties that made up the government that fell late last year retained their eight-vote majority in parliament. In a limited shift to the left, the Social Democrats gained three seats, giving them more deputies than their three non-socialist partners combined, and strengthening their claim to take the post of prime minister away from the Center Party.

The issue which brought down the last government--agricultural support levels--remains to be resolved, however, and other difficult economic policy decisions should be made this month and next to renew Finland's economic stabilization program. With the elections showing so little shift in voter sentiment, it remains to be seen whether the parties have the will to compromise enough to negotiate a government program.

There also remains the question of including the Communists in the next government; they increased their standing marginally. There is probably some support for doing so on the grounds that this would please the USSR and that the party is less of a threat inside the government than out. The Communists, however, are badly split--a circumstance that forced them to drop out of a previous government--and with a fractious party congress looming in March may themselves be in no position to make a decision.

A somewhat similar situation prevailed after the 1970 elections, when after two months of party wrangling President Kekkonen appointed a non-political government that ruled for two months. Finland has had a non-political government since early November while the parties campaigned, and it could be continued until political conditions change to allow the parties to agree.

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USSR: A decline in the domestic sugar beet harvest combined with reduced imports from Cuba and rising commitments has led Moscow to buy sugar from a number of non-Communist suppliers.

The Soviets have recently bought 450,000 tons of Brazilian, Australian, and Caribbean sugar. In addition, they have purchased 300,000 tons from other unspecified countries. These deals apparently will compensate in part for the fall-off in shipments from Cuba last year, which are estimated at about half of the 1970 record level of more than three million tons.

The USSR's growing consumption requirements and export commitments will reach more than 11 million tons in the 1971/72 consumption year. The domestic harvest last year, however, probably was below average for the third year in a row. The Soviets nevertheless are believed to have substantial stocks of sugar which can be drawn down to some extent. Depending on the level of reserves that Moscow wants to maintain, the Soviets may make additional purchases on the world market.

The recent contracts will add an estimated \$110-120 million to the USSR's hard currency requirements this year. Soviet purchases of sugar in turn are exacerbating the USSR's shortage of foreign exchange by helping to drive world sugar prices to their highest level in seven years, including a doubling during the past six weeks.

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CHILE: President Allende is evidently planning important personnel and policy changes to strengthen his position. In a speech to be delivered within the next few days, Allende will announce cabinet and other official shifts, according to a well-informed Santiago daily. Following an upsurge of opposition activity, Allende's recent speeches reflect determination to take new initiatives. Simultaneously with public challenges to his opponents, Allende and his advisers appear to have been conducting backstage bargaining with cooperative Christian Democrats and influential dissident Radicals, possibly with a view to bringing them into his administration.

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INTERNATIONAL MONETARY DEVELOPMENTS: Since the Smithsonian agreement, major foreign central banks have sold only about \$1.5 billion of the estimated \$20 billion worth of US dollars absorbed during the currency speculation in 1971. Since 1 January there have been no net dollar outflows from central banks, as foreign exchange markets have become increasingly quiet and the major currencies have moved above their respective intervention rates. The outflow of dollars has been significantly smaller than had been expected. Many corporate financial managers who had exchanged dollars for stronger currencies during the currency upheaval are awaiting further developments in the quest for an international economic settlement. They are particularly wary of the possibility that the US Congress may not be satisfied with the trade concessions made by the EC, Japan, and Canada and, consequently, will not pass legislation permitting devaluation of the dollar against gold. In addition, higher interest rates in most other major countries are preventing a substantial return of dollars to the US.

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PERU: The government has issued two new decrees designed to curb damaging miners' strikes. All labor contract disputes lasting more than 30 days are to be referred to the Ministry of Labor for settlement and, beginning in 1973, these government-imposed contracts will be in effect for a minimum of two years. These measures may have been precipitated by a violent strike last November at Cerro de Pasco's Cobriza mine, where five workers were killed. Moreover, strikes by the Communist-controlled mining unions have cost Peru about \$80 million in export earnings and \$20 million in tax revenues since January 1970.

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